

Message Text

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SUBJECT: PG SHIP CO- PRODUCTION PROJECT

REF: STATE 052646

COUNTRY TEAM MESSAGE

1. SUMMARY: COUNTRY TEAM REAFFIRMS HIGH PRIORITY OF PG-92 SERIES PATROL SHIP CO- PRODUCTION PROJECT. PROJECT CONSTITUTES ONE KEY ELEMENT OF ROC' S FLEET MODERNIZATION PLANS. RATHER THAN DEPRIVE US WORKERS OF JOBS , PROJECT SHOULD, AS WE UNDERSTAND SITUATION, PROVIDE NET INCREMENT TO US EMPLOYMENT. GRC IS ACTIVELY CONSIDERING THIRD COUNTRY ALTERNATIVE TO US PROCUREMENT OF PATROL CRAFT. TO RETAIN LEVERAGE OVER GRC SELECTION OF PATROL SHIPS COMPATIBLE WITH US POLICY OBJECTIVES AND TO PERMIT ORDERLY ASSIMILATION OF COSTS OF PROGRAM IN GRC BUDGET, COUNTRY TEAM RECOMMENDS APPROVAL FMS CREDIT FOR INITIAL 5 PG-92 SHIPS, WITH ROC FUNDING IN CASH REMAINING 10 VESSELS OVER FY75-79 TERM OF PROJECT. END SUMMARY.

2. IN RESPONSE REFTTEL, COUNTRY TEAM HAS REVIEWED PG -92 PATROL SHIP CO- PRODUCTION PROJECT ORIGINALLY RECOMMENDED CONFIDENTIAL

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ONE YEAR AGO. COUNTRY TEAM REAFFIRMS HIGH PRIORITY ORIGINALLY ASSIGNED TO THIS PROJECT WHICH IS IMPORTANT

STEP IN ACHIEVING CRITICALLY- NEEDED MODERNIZATION OF THE OBSOLESCEMENT AND INADEQUATE ROC FLEET. ROC ACQUISITION OF PG-92' S WOULD PERMIT IMPROVED PATROL OF THE TAIWAN STRAITS AND HARBORS, DEFENSE OF THE ROC FLEET AND CONVOYS AND, COUPLED WITH AIR SUPPORT, WOULD PROVIDE ENHANCED CAPABILITY TO MEET THE THREAT OF AN INCREASINGLY SOPHISTICATED ARRAY OF PRC PATROL CRAFT. ROC HAS RECENTLY RESTATED ITS DETERMINATION TO FILL THIS VOID.

3. BELIEVE DEPARTMENT' S NOTIFICATION TO CONGRESS OF FMS CREDIT ALLOCATION TO CO- PRODUCTION IN ROC OF PG-92 SHIPS SHOULD CLEARLY UNDERLINE THAT PROJECT WILL RESULT IN NET INCREMENT TO US EMPLOYMENT AND INDUSTRIAL OUTPUT. IT IS OUR UNDERSTANDING THAT THESE SHIPS, AS INTEGRAL UNIT, ARE NO LONGER IN PRODUCTION IN US. SALE OF US EQUIPMENT, COMPONENTS, TOOLING AND KNOW- HOW TO FACILITATE ROC PROJECT WOULD APPEAR TO GENERATE NEW EMPLOYMENT AND GIVE BOOST TO US TRADE. UNDER CO- PRODUCTION SCHEME, ABOUT 85 PERCENT OF ROUGHLY \$4 MILLION ESTIMATED COST PER UNIT WOULD GO FOR PURCHASES OF US MATERIALS AND SERVICES WHICH WOULD NOT OTHERWISE BE EXPORTED.

4. SOME DEGREE OF MULTI- YEAR COMMITMENT, WHETHER CREDIT OR CASH, FOR PG-92 CO- PRODUCTION WOULD SEEM UNAVOIDABLE BECAUSE JOINT US / ROC PLANNING AND PROGRAMMING ON PROJECT OF THIS SCALE IS LONG- RUN AND MULTI- YEAR IN NATURE. NONETHELESS, THE ROC IS INCREASINGLY AWARE OF THE STRICTURES OF THE US CONGRESSIONAL APPROPRIATIONS PROCESS AND ACCEPTS THE NEW SIGNIFICANCE OF THE CLAUSE " SUBJECT TO CONTINUING LEGISLATIVE AUTHORITY".

5. IN ISOLATION, I. E., VIEWED AGAINST ROC' S TRADE SURPLUS WITH US, ITS BURGIONING RESERVES, AND STRONG CREDIT POSITION, THERE WOULD APPEAR TO BE NO PROBLEM WITH ROC PURCHASE PG-92 PACKAGE UNDER FMS CASH PROCUEDURES RATHER THAN CREDIT. HOWEVER, PICTURE IS COMPLICATED BY FOLLOWING CONSIDERATIONS RELATING TO ONGOING ROC CREDIT NEEDS:

A) IF PGM SHIPS WERE CO- PRODUCED WITH CASH OUTLAY,
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LAGE INITIAL EXPENDITURE -- ROUGHLY \$6 MILLION-- COULD NOT BE BUDGETED IN FY 73 OR FY 74 WITHOUT DIVERSION OF RESOURCES FROM MAINTENANCE OF EXISTING FORCE STRUCTURE OR OTHER ONGOING DEFENSE AND ECONOMIC PROGRAMS. LOSS OF MAP AID IN FY74, PURCHASE REQUIREMENT FOR EDA, AND SHORTFALL IN FY73 CRA FMS ALLOCATION PLACE ADDITIONAL STRINGENCIES ON MILITARY SHARE OF BUDGET.

B) THERE ARE NUMEROUS COMPETING CLAIMANTS FOR FUNDS WITHIN CIVILIAN SECTOR OF ECONOMY: INFRASTRUCTURE, MODERN INDUSTRIAL REQUIREMENTS, HOUSING, WELFARE AND AGRICULTURE.

C) FMS CREDIT WOULD INFLUENCE ROC TO SELECT PATROL SHIPS OF DESIGN CONSISTENT WITH US INTERESTS AND COMMITMENTS.

6. SPECTER OF ROC SEEKING ALTERNATE SOURCE OF PROCUREMENT WAS RAISED IN EA/ ROC MEMORANDUM OF MARCH 14 REGARDING ROC OVERTUGAS TO U. K. FIRMS SOLICITING BIDS FOR SELECTED MILITARY EQUIPMENT. MORE SPECIFICALLY, WE HAVE CONFIRMED REPORT THAT CINC OF ROC NAVY RETURNED MARCH 23 FROM SINGAPORE VISIT WHERE HE INSPECTED TWO PGM- TYPE VESSELS OF EUROPEAN DESIGN. HE REPORTED THAT HE HAD BEEN INFORMED EUROPEAN BOATS WERE SUPERIOR TO US PGM IN BOTH POWER PLANT AND ARMAMENT. (ONE EUROPEAN CRAFT WAS REPORTED AS HAVING 13,000 TOTAL SHAFT HP AND A GABRIEL SSM SYSTEM, AS COMPARED TO LOWER HP AND THREE- INCH GUN OF US CRAFT.) WE RECOGNIZE CINC' S COMMENTS MAY WELL HAVE BEEN INTENDED TO PROD US DECISION ON FMS CREDIT BUT, AT LEAST, THERE ARE STRONG INDICATIONS ROC IS INVESTIGATING ALTERNATIVES IN SOME DEPTH.

7. WE DOUBT ROC WILL MAKE DIRECT PURCHASE EITHER FROM US OR THIRD COUNTRY SOURCES." IN EITHER CASE, PRICE UNDER DIRECT PROCUREMENT WOULD BE EXCESSIVE (1972 PRICE FOR US PGM WAS \$7.1 MILLION PER SHIP FOR INITIAL FIVE SHIPS, AND ROC NAVY HAS RECENTLY RECEIVED A EUROPEAN QUOTATION OF \$10 MILLION PER CRAFT. THIS IS AGAINST \$3.5 MILLION TO \$4 MILLION COST PER TACOMA PG-92 SHIP IF CO- PRODUCED IN ROC.) MOREOVER, ROC WISHES TO FOSTER LOCAL CONFIDENTIAL

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SHIP BUILDING CAPABILITY. ROC OPTIONS, OF COURSE, ARE LIMITED BY THE FACT THAT ALMOST ALL COUNTRIES WHICH ARE POTENTIAL MILITARY EQUIPMENT SUPPLIERS ARE SEEKING CLOSER TIES WITH THE PRC AND ARE WARY OF ARMS DEALS WITH THE ROC. HOWEVER, MND AND ROC NAVY SEEM AMENABLE TO THIRD- COUNTRY CO- PRODUCED VESSELS IF COST EFFECTIVENESS AND AVAILABILITY PROVE BETTER THAN US ALTERNATIVE.

8. RECOMMENDATION: COUNTRY TEAM RECOMMENDS FMS CREDIT BE APPROVED FOR INTIAL CO- PRODUCTION OF FIVE PG-92 SERIES SHIPS, WITH FINANCING FOR REMAINING TEN VESSELS TO BE FUNDED BY ROC ON FMS CASH BASIS. FAILING THAT, AN APPROPRIATE FMS CREDIT/ CASH MIX SHOULD BE OFFERED WITH US PROVIDING FINANCING FOR AT LEAST INTITAL TWO YEARS, PERMITTING THE ROC TO BUDGET FOR CASH OUTLAY DURING REMAINING 5- YEARS. ONE ALTERNATIVE CREDIT/

CASH MIX, FOR EXAMPLE, MIGHT REQUIRE A LARGER THAN
NORMAL CASH DOWNPAYMENT BY THE ROC AS A PART OF FMS
CREDIT ARRANGEMENT FOR THE FIRST FIVE VESSELS. THIS
WOULD REDUCE THE SIZE OF MULTIYEAR FINANCING REQUIRED.
MC CONAUGHY

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